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**EXPLANATORY MEMORANDUM ON EUROPEAN UNION DOCUMENT**

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL ON THE EVALUATION OF THE UNION’S FINANCES BASED ON THE RESULTS ACHIEVED**

**COMMISSION STAFF WORKING DOCUMERNT ACCOMPANYING THE DOCUMENT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL ON THE EVALUATION OF THE UNION’S FINANCES BASED ON THE RESULTS ACHIEVED**

**THE ACTION PLAN FOR THE DEVELOPMENT OF THE ARTICLE 318 EVALUATION REPORT**

July 2013

Submitted by HM Treasury

# SUBJECT MATTER

1. The Commission published its third report to the European Parliament and the Council on the evaluation of the Union’s finances based on the results achieved, as required under the Lisbon Treaty, on the 2 July 2013.
2. Based on suggestions made by the Discharge Authority and the European Court of Auditors (ECA) in response to previous reports, the Commission has responded to the monitoring and evaluation frameworks under the current Multi-annual Financial Framework (MFF) 2007-2013 and also moves in the direction envisaged for the report under the next MFF. This report differs from the previous as it is published much earlier in the year to align it with the adoption of the Synthesis Report and to ensure that it is available for the Discharge Authority and the ECA ahead of the 2012 Discharge process.
3. The report covers EU programmes from all areas of expenditure under the current MFF and the results of external programmes (Heading 4), with information on the progress towards achieving EU 2020 flagship initiatives highlighted where possible. Other sources, such as performance-related information, and results from separate evaluations are also used where appropriate.
4. The Report is accompanied by two Commission Working Documents: an Action Plan setting out provisional planning for the further development of the Report; and a comprehensive overview of 130 evaluations concern expenditure programmes completed in 2012. .
5. **Action to improve monitoring reporting and evaluation**

* The Commission reiterates its proposal for performance management in the next set of programmes over the new MFF period will focus on:
  + Simplification to facilitate and accelerate programme implementation;
  + Improvements to monitoring of progress, to ensure improved identification of delays and difficulties and quicker actions to remedy deficiencies); and
  + Improvements to evaluation and reporting on performance.
* In the context of its Smart Regulation agenda, the Commission is working on a review of its policy on evaluation, and plans to hold a public consultation later this year with a view to adopting conclusions reached around the end of the year. The Commission is of the view that the outcome of this should make a further contribution to improved reporting on the progress, efficiency, effectiveness and added value of EU actions in achieving impacts on the economy and society.

1. **Overview of results achieved**

* *The following is a summary of the Commission’s evaluation of the policy areas under each heading as set out in the report:*

***Heading 1A -* Competitiveness for growth and employment**:

* *Enterprise and industrial*: targets for stimulating growth and job creation could not be met as a result of the economic slowdown. Innovation performance on the other hand showed overall improvement, continuing convergence and higher leverage effects measured in terms of additional innovation resulting from EU support particularly that provided for the Small and Medium Enterprises (SMEs). Entrepreneurship and Innovation Programme, designed to provide a direct and practical response to the core needs of SMEs, effectively addressed their needs and had a positive effect on start-ups and growth, in terms of leverage and the development of eco-innovative activities. The programme objectives of Galileo and EGNOS have been met with the launch in October 2012 of two new satellites and the deployment of the ground infrastructure for the programme.
* *Mobility and transport*: EU funding has contributed to the progress made in modernising Europe's transport infrastructure. However, further efforts would be required to achieve the long term targets of an efficient internal market in transport (measured for instance by prices for citizens and business) and to ensure the transition to low-carbon and smart transport, which contribute to the Europe 2020 Strategy. Recent proposals aimed at further strengthening the internal market in the railway sector and promoting clean fuel alternatives are steps in that direction.
* *Information and Society and Media Policy:* the main objectives for this policy area are set out in the Digital Agenda for Europe (DAE) - one of the EU 2020 flagships aimed at enabling Europe's citizens and businesses to get the most out of digital technologies. A Commission’s review in December 2012 showed that the DAE was on track to meet most of its targets and as a result led to new digital priorities being formulated for 2013-2014, including the creation of a more stable broadband regulatory environment. Also a study into the impact of the Sixth Framework Programme (FP6) measures on Information Society Technologies, stressed the positive value of exploring new scientific/technological areas, the strengthening of research collaboration and the increase in staff capability and expertise.
* *Energy*: the Trans-European Networks-Energy (TEN-E) work programme for 2012 was successfully implemented with financial commitments made for 19 electricity and gas projects during the year. The ex-post evaluation of five projects funded under the programme indicated that the projects were successful as they increased energy capacities between regions in Europe, contributed to the integration of energy markets within the EU and allowed for transportation of energy from locations with low cost production to the locations of the consumers. The Commission adds that such integration activities contribute to the more competitive wholesale and retail pricing of energy, which has the potential of decreasing overall energy costs. In 2012, the ECA special report on EU financial assistance for the decommissioning of nuclear plants in three Member Sates[[1]](#footnote-1) recommended that a detailed needs assessment, an analysis of available resources, expected benefits and more meaningful performance indicators be prepared before further spending is made. These recommendations have been taken up in the Commission's recent proposal for a Council regulation on Union support for the nuclear decommissioning assistance programme for the three Member States.
* *Research*: As at March 2013, over 13,000 grant agreements had been signed under the Seventh Framework Programme (FP7), with 2,800 projects completed (with 98% achieving their initial objectives). Based on final reports, completed research projects each produced an average of 4.5 publications and recorded a total of 531 Intellectual property rights. By the end of 2012, 76 European Research Council (ERC) grantees had won prestigious international prizes (up from 36 by the end of 2011), including five Nobel Prize winners and three Field Medallists. During the same period, more than 7,900 peer-reviewed journal articles acknowledging ERC funding were identified, an increase from the 3,396 identified by the end of 2011.
* *Education Policy:* the evaluation carried out on the Erasmus Mundus II (EM II) for the period 2009-2011 concluded that the programme supported and made important contribution to the internalisation process of the European higher education area, and promoted the development of skills relevant in the labour market, but that this does not fully serve the needs of the EU. The evaluation highlighted that activities could be more open to international mobility and cooperation in the field of vocational education and training, and suggested strengthening links with related programmes in order to increase synergies and avoid identified overlaps. In addition, management was found to be problematic and lacked coordination at strategic level.
* *Taxation and customs policy:* The EU's taxation and customs policy is supported by two expenditure programmes 'Fiscalis 2013' and 'Customs 2013', which aim to improve cooperation between Member States and support the exchange of information. According to the Commission, feedback from participants in programme activities confirms that these activities systematically attain their objectives. The programmes also contribute to the improved functioning of the European Information Systems for taxation and customs.

***Heading 1B Cohesion for growth and employment:***

* *Employment and Social Affairs (ESF):* in 2012 the employment and poverty reduction targets set out under the EU 2020 strategy were not met. Evaluations did find evidence that instruments such as the ESF had positive results, contributing to addressing challenges related to the economic crisis. The most effective ESF social inclusion interventions were with young people at risk of leaving school early or at the point of transition from school to work and in activities to bring adults back into the education system. However there was little evidence on the sustainability of employment. Administration costs were reasonable when compared with similar programmes, but there was scope to reduce costs in areas such as information and publicity. Mid-term evaluations of the European Globalisation Fund (EGF) and PROGRESS indicated they had positive impacts, although suggestions were made to improve the administration of the EGF, including strengthening monitoring and sharing best practice.
* Regional Policy: the two ex-post evaluations carried out on ten major projects co-financed by European Regional Development Fund (ERDF) and Cohesion Funds in 1994-1999 and financed by the Cohesion Fund in 2000-2006 provided evidence on the impact and added value of the Funds' infrastructure investment in transport and environment; the findings of which are being translated into programme guidance over the next MFF. The Commission believes that the evidence from these evaluations and the ECA performance audit of Financial Engineering Instruments has validated its proposals for the next programming period; in particular on better programming and monitoring, common indicators, a performance framework with milestones and targets and evaluation and accountability for results achieved as well as resources utilised.

***Heading 2 – Preservation and management of natural resources:***

* *Environmental policy*: evaluation of the LIFE programme concluded it demonstrated EU added value, noting its ability to act as a platform for exchange of practice and knowledge-sharing. The evaluation found improvements in some areas of programme implementation compared to earlier evaluations. For example, more weight has been given to EU added value in project selection. However, beneficiaries remain largely focussed on their individual projects and profiles. Whilst the electronic application process has reduced the administrative burden for applications, this burden is slightly higher than for other EU programmes. There is potential to expand the use of electronic reporting in project monitoring to further reduce the burden. Evidence from evaluations and consultations has contributed to the design of the new programme for the next MFF, which includes the objectives of: establishing a better link with EU policy priorities, including climate action; promoting the use of integrated projects; developing synergies and complementarities with other EU Funds; promoting EU added value, solidarity and effort-sharing and simplifying the programme.
* *Agriculture and rural development policies*: Common Agricultural policy (CAP) Pillar 1 data on direct aid indicates that decoupled payments do stabilise farm incomes and as such contribute to the economic viability of farms. Further progress has been made in closing the programmes covering the 2000-2006 period and in the implementation of the rural development programmes in 2007-2013. In 2012 six evaluations on different elements of CAP were conducted, examining in particular the impacts of its measures on markets, farm income, production structures, competitiveness, the environment and rural development. The ECA also produced eight special reports with performance-related feedback on targeted measures. For example, the evaluation of the wine sector found that the implementation of measures through national support programmes has been effective. However, some problems were identified in policy management and achieving simplification. The evaluation of the cereals sector confirmed that, while aid is needed to support producers' income, the switch to decoupling limits distorting effects and ensures coherence with the overall CAP objectives. Finally, evaluation of the School Fruit Scheme showed that it was effective in increasing children's fruit and vegetable consumption in the short term, whilst the brief implementation period would not permit evaluation of the impact on improved eating habits in the longer term.
* *Maritime and Fisheries policies*: decommissioning of fishing vessels has had limited impact on fishing capacity and effort, and better indicators are needed for the European Maritime and Fisheries Fund from January 2014. The synthesis report showed that although progress made in most priority areas (Axes) were satisfactory; Axis 4 (community led local development) implementation had been slow due to late implementation across Member States. The Commission’s internal audit of several Fisheries Partnership, considered that there were weaknesses in the current process of evaluating individual agreements, and recommended developing and implementing a standard methodology with a coherent and systematic approach to conduct both the ex-post and ex-ante evaluations.

***Heading 3A – Freedom, Security and Justice:***

* The 2012 evaluation of the *EU Crime Prevention Network* highlighted its added value. The European Council requested a study of the possibility for establishing a Crime Prevention Observatory; however the Commission recommended consolidating the progress made and improving the functioning of the Network rather than establishing an Observatory. The evaluation highlighted a number of weaknesses, including on organisation and governance, which would need to be corrected through a more systematic alignment of the Network with agreed EU priorities, a stronger role in making inputs to EU and Member State policymaking and a more strategic approach to determining activities. ECA evaluation of the European Integration Fund and the European Refugee Fund’s effectiveness in integrating third-country nationals highlighted actions and projects that showed positive results. However, it was critical of the general effectiveness of the Funds, and made a number of recommendations including the need for having management and control systems in place and simplifying the programming arrangements. The Commission’s proposal for the programmes in the next MFF on the Asylum and Migration Fund and Internal Security Fund took the ECA’s recommendations on board.

***Heading 3B – Citizenship:***

* *Communication policy*: evaluation of the European Year of Volunteering 2011 concluded that its objectives and activities were relevant and targeted, and that the results-oriented approaches have been successful in reaching the objectives in all Member States, although the impact varied according to specific national situations.
* *Cultural policy*: the Youth in Action programme (YiA), MEDIA 2007-2013, MEDIA Mundus and the Culture Programmes were all implemented as foreseen, on schedule and in all participating countries. In 2012 YiA supported a greater number of young people and youth workers; and with 200,000 participants, the programme has proven to be increasingly attractive as it contributes to the recognition of non-formal learning. According to the latest available monitoring survey, 67% of participants believe that their job chances have increased as a result of their YiA experience (61% in previous survey).

***Heading 4 – EU as a global player:***

* *Development and external relations:* evaluation showed that in general at the strategic level, EU interventions addressed the needs of partner countries and their population, but should be flexible enough to anticipate and adjust to a changing context. In fragile states, it recommends that the EU should focus more on development and good governance, and that civil society organisations can act as a catalyst for improving the relevance of EU strategies and for holding governments accountable.
* *Economic and financial affairs:* evaluation of the Macro Financial Assistance (MFA) to Georgia and Kosovo suggested that the Commission should be more specific in formulating conditionality, especially in the case of developing action plans. It should also improve the visibility of the MFA instrument as it creates added value through its confidence-boosting effect.
* *Humanitarian Aid and Civil Protection*: EU humanitarian assistance was shown to be effective and the 'bottom-up' approach has proven its ability to respond rapidly to crises. It made a number of recommendations to improve the programmes’ effectiveness including: having a greater emphasis on measuring longer term effects and impacts; continue efforts to drive coordination between donors; further innovation; longer timeframes for certain projects (e.g. beyond 12 months) to ensure effectiveness.
* *Enlargement:* the evaluation concluded that the simplification of the Instrument for Pre-Accession Assistance II (IPA II) programming to fewer instruments and more sector programming with longer time-horizons supports efficiency and effectiveness. On the beneficiary side, the evaluation indicated that judicial reform programmes should have clear priorities reflected in national policy and budget propositions, ensuring stable planning parameters and financing. The evaluation found that the EU should elaborate overall programme objectives with regard to Governance and the Rule of Law and should re-assess and perhaps increase the IPA funding following the evidence based programming. Priority programmes could also have a 4-7 year horizon with clear stoppage points for review and adjustment.

1. In concluding, the Commission states that it has taken account of results of the evaluations in making its proposals for the new generation of programmes under the next MFF, and calls on the European Parliament and the Council to maintain this focus in the legislative proposals for the next MFF to ensure a more manageable, targeted and measurable process for the next financial period. It also states that it is developing a more thorough, systematic and targeted progress and performance reporting, to be based on the monitoring, evaluation and reporting framework set by the next MFF, to be presented in 2014. In the meantime, it has instructed its services to strengthen and streamline progress, and performance measurement and reporting to underpin all future Annual Activity Reports and future versions of this Report.

**MINISTERIAL RESPONSIBILITY**

1. The Chancellor of the Exchequer has responsibility for United Kingdom policy on European Union monetary and economic issues. The Foreign and Commonwealth Secretary is responsible for overall United Kingdom policy towards the European Union.

# INTEREST OF DEVOLVED ADMINISTRATIONS

1. This EM concerns a mixture of reserved and devolved matter under the UK's devolution settlements. The devolved administrations have been consulted when appropriate in its preparation.

# LEGAL AND PROCEDURAL ISSUES

* + 1. Legal basis

1. Article 318 Treaty on the Functioning of the European Union.

ii. Legislative procedure

1. Not applicable. This is not a proposal for legislation.

iii. Voting procedure

1. Not applicable.

iv. Impact on United Kingdom Law

1. Not applicable.

v. Application to Gibraltar

1. Not applicable.

vi. Analysis of Fundamental Rights Compliance

1. No issues arise.

**APPLICATION TO THE EUROPEAN ECONOMIC AREA**

1. Not applicable.

**SUBSIDIARITY**

1. This is not a proposal for legislation so the principle of subsidiarity does not apply.

**POLICY IMPLICATIONS**

1. The Government considers such reports are essential in the context of accountability and transparency of the EU budget, and welcomes the improvement to this year’s report.
2. On Heading 1a the Government agrees with the need for efficient and flexible financing programmes which are able to respond to changing market conditions and are well integrated into the local business environment. The Government would also support the need for programmes to have quick and efficient decision making processes, strong collaboration with the private sector and to be aligned with business advice and support services. The Government broadly supports the EU’s expenditure on energy policy, in particular funds for nuclear decommissioning, as an important contribution to the EU’s nuclear security. Similarly, the EU’s funding of CCS demonstration projects has an important role to play in the development of this technology. We also note the value of the TEN-E in facilitating the integration of EU energy markets. The Government supports the decommissioning of programmes in Bulgaria, Lithuania and Slovakia as a point of principle as it will result in the reduction of risk to the UK from contamination should there be an unplanned release of radioactive materials from their reactors. However, this should be done in the context of budgetary restraint.
3. On Heading 1b Government continues to make press for better spending within this heading and agrees that further efforts are needed to reduce ESF administrative costs and burdens. These findings will help inform the next generation of EU programmes from 2014-2020. However, they are findings at the EU level, and the situation in individual Member States may be different. It is important that Member States have the flexibility to use the ESF to address their specific labour market priorities and needs.
4. On Heading 2 the Government believes that much of this expenditure, in particular in Pillar 1 of the CAP, represents very poor value for money. On the specific evaluations, the Government broadly agrees that the cereal sector has moved to a more market orientated footing.  In the last number of years, the EU cereals market has been operating at a global level, which means that expenditure on market management measures has been kept to the minimum. The Government agrees the broad thrust of the Commission’s wine evaluation and concurred with the Commission’s view that the wine reform of 2008 had been successful. The measures have a significantly more competitive focus when compared with those used by the sector prior to 2008 which were more aligned to supporting the cycle of production and disposal. The Government strongly supports the aim of getting children to eat more healthily, but has reservations about the need for an EU funded scheme within CAP. The Government feels that these initiatives should be funded by Member States themselves. Individual Member State schemes should have the chance to fully develop and analysis undertaken before any increase in the budget is considered. The Government notes that the recommendations from ex-post evaluation of Rural Development Programmes 2000-2006 and the synthesis of the mid-term evaluations of Rural Development Programmes, 2007-2013 show positive economic and environmental impacts, and agrees that they should in future be better targeted to support this further in future.  However, the Mid-Term Evaluation was produced at too early a stage in the programming period, and the Government welcomes proposals for reviewing Rural Development programmes later in the period.  The Government also welcomes the closer links with other European Funds (such as ERDF and ESF); although concerns remain that such an approach brings added complexity to implementation.
5. On Heading 3 the Government notes that 14 projects run by UK organisations have been funded under the Fundamental Rights and Citizenship Programme (2007-2013) - the third highest number of all Member States. The Government also notes that elements of the current Fundamental Rights and Citizenship programme along with the Daphne programme (addressing violence against women) and the Anti-discrimination and Diversity and Gender Equality elements of the PROGRESS programme are to be brought together under a new Rights, Citizenship and Equality programme (2014-2020). This would support projects which aim to collect and produce information, support training and monitor the implementation of Union legislation in areas such as antidiscrimination, the rights of the child and violence against women.
6. On Heading 4 the Government recognises that a key strength of EU development assistance is the availability of a mix of aid modalities, particularly in fragile contexts. The Government welcomes the endorsement of this in the evaluations; and the emphasis on the need for policy dialogue, particularly when deployed with budget support.  Some of the evaluations’ findings are feeding into the Commission’s proposals for the next MFF, including the need for better coordination with other donors, better linkage between regional and national programming and more synergies between the different sectors. We welcome confirmation that the European External Action Service (EEAS) will take the results into consideration in preparing the next country programmes to be finalised in 2014; and that the results of thematic evaluations are having an impact on improving implementation of health related interventions.  They have also led to a new unified Strategic Framework for human rights common to the Commission, the EEAS and Member States, with a wide-ranging plan of action for its implementation.  We would strongly endorse the need for a greater emphasis on measuring longer term effects and impacts, including providing a set of appropriate indicators to measure impacts.

**REGULATORY IMPACT ASSESSMENT**

1. The report does not in itself have any regulatory implications.

**FINANCIAL IMPLICATIONS**

1. The report does not in itself have any financial implications.

**CONSULTATION**

1. Not applicable.

# TIMETABLE

1. This report is likely to be presented to the Council’s Budget Committee. This has not been scheduled yet.

### GREG CLARK MP

### FINANCIAL Secretary

## HM Treasury

1. Bulgaria, Lithuania and Slovakia [↑](#footnote-ref-1)